

VZCZCXRO7366  
RR RUEHLMC  
DE RUEHMU #0947/01 2721907  
ZNY CCCCC ZZH  
R 291907Z SEP 09 ZDK  
FM AMEMBASSY MANAGUA  
TO RUEHC/SECSTATE WASHDC 4602  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE  
RUEHME/AMEMBASSY MEXICO 5970  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC  
RHEHNSC/NSC WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC  
RUEAIIA/CIA WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 MANAGUA 000947

SIPDIS

STATE PASS USTR AND OPIC

E.O. 12958: DECL: 09/29/2029

TAGS: [ENRG](#) [EINV](#) [ECON](#) [NU](#)

SUBJECT: NICARAGUAN GOVERNMENT CANCELS U.S. WIND ENERGY PROJECT

Classified By: DCM Richard M. Sanders for reasons 1.4 b & d.

#### Summary

1. (C) On August 27, the Ministry of Energy and Mining (MEM) revoked the provisional license it issued to U.S. - Guatemalan - Nicaragua consortium AMAYO for the installation of wind turbines near the Costa Rican border. MEM announced that it had revoked the license because the consortium had begun construction before receiving its final generating license. The U.S. partner in the AMAYO consortium, ARCTAS Capital Group, contends that the provisional license allows for construction and suggest that President Ortega ordered the license revoked to make way for Mexican businessman Carlos Perlata's interests in wind energy. GE Energy would supply Peralta's 60 megawatt project with turbines. This case may raise issues concerning the Nicaraguan Government's obligation under CAFTA-DR to provide minimum standards of treatment for AMAYO in its licensing process. AMAYO has not sought our assistance thus far.

#### Government Revokes License

2. (C) On September 11, David Haug, managing director of ARCTAS Capital Group, told econoffs that on August 27 MEM revoked the provisional license it issued to the AMAYO Consortium just a month earlier for the installation of 11 wind turbines, manufactured by Indian company SULZON, near the Costa Rican border. The turbines were to have generated 23 megawatts of electricity for the Nicaraguan grid. Haug said the Ministry of Environment and National Resources (MARENA) followed suit soon thereafter and revoked AMAYO's environmental permit.

3. (C) ARCTAS, a U.S. company, owns 47.5% of AMAYO. Guatemalan company Centrans Energy Services owns 47.5% and a local partner the final 5%. AMAYO already invested \$100 million to install 19 SULZON wind turbines with a total capacity of 40 megawatts on an adjacent property. This first phase is fully licensed and already supplying electricity to the national grid. According to Haug, the provisional license issued on July 27 for phase II allowed AMAYO to begin installing turbines and make all other necessary preparations -- short of connecting to the grid. In August, AMAYO began clearing land and building reinforced concrete pads as part of its \$60 million investment.

4. (C) In a press release, MEM announced that it had revoked AMAYO's license because the consortium had begun construction before receiving its final generating license. The Ministry cited Article 23 of the 1998 Electricity Law, which, according to the release, says "the construction,

installation, maintenance, and operation of electricity generation plants is permitted only for generators that have a license, authorized by the Ministry." Haug pointed out that Article 23 in fact states, "the construction, installation, maintenance, and operation of electricity generation plants is allowed for all economic agents so long as it does not pose a danger for persons, property, or the environment." According to Haug, the provisional license allows for construction but not generation.

#### Appeals Process Underway

-----

15. (C) AMAYO General Manager Sean Porter told econcouns on September 25 that MEM had rejected the consortium's appeal of the decision to revoke the provisional license. Meanwhile, AMAYO is paying \$11,000 a day in demurrage for equipment in the port of Corinto ready to be off loaded and \$9,000 a day in construction costs. Despite these setbacks, Porter said "hope is not lost," and AMAYO is pursuing all available administrative and judicial channels, including a second appeal that President Ortega is supposed to hear directly. AMAYO also seeks to enlist the support of Investment Promotion Delegate Alvaro Baltodano and Presidential Economic Advisor Bayardo Arce. Porter said he would emphasize the negative impact this issue is having on the investment climate and remind these officials of Nicaragua's commitments related to investment included in the U.S. - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR).

#### Mexican Businessman Promotes Competing Project

-----

16. (C) ARCTAS' Haug told econoffs that competing commercial interests -- not any lack of compliance on the part of AMAYO -- are behind the government's decision to cancel the license for phase II. He explained that Mexican billionaire Carlos Peralta had cultivated a relationship with Humberto and Daniel Ortega over the past few years and was interested in installing wind turbines to produce 60 MW of electricity at a site a few miles away from where the AMAYO project is located. Haug said the Mexican businessman views AMAYO's expansion plan as a threat. If both projects move forward, electricity produced by wind in Nicaragua would total 123 MW, including 40 MW already produced by phase I of AMAYO, 23 MW by phase II, and 60 MW by Peralta. Industry experts say total wind energy production above 100 MW would be unsafe for a grid the size of Nicaragua's (about 900 MW total), given the inherent uncertainty in the availability of electricity generated by wind. Haug posited that Peralta bribed Ortega to cancel the AMAYO concession and make way for the Mexican wind turbine project.

#### GE Energy to Provide Turbines

-----

17. (C) Charles Pearson of GE Energy confirmed in a conversation with econcouns on September 24 that his company was negotiating with Peralta to supply U.S.-made wind turbines and equipment for the project. He made it clear that GE Energy would take no equity stake in the Mexican project and that his company had no role in the revocation of AMAYO's permit. Pearson acknowledged the possibility that bribery played a role in Ortega's decision to cancel the AMAYO permit -- in which case GE Energy would withdraw from the project -- but he offered other explanations as well. Pearson said Ortega may feel he is indebted to Peralta, because the Mexican is rumored to have provided financial support to Ortega when he was exiled in the 1970s. He also said AMAYO's decision to enlist Cesar Zamora, country manager for AEI, to lobby on behalf of the project may have backfired. Pearson said Ortega detests Zamora for his role in denouncing electoral fraud in November 2008 when he was AmCham president.

#### Comment

-----

18. (C) It is difficult to decipher Ortega's motive in revoking AMAYO's license. Bribery, as suggested by ARCTAS, is possible, but so are the other explanations offered by GE Energy (though less likely in our view). We have been careful not to opine on the topic in our conversations with either U.S. company, to avoid the perception that we are favoring the interests of one over the other. The revocation of AMAYO's license does indeed raise the issue of the Nicaraguan Government's obligation under CAFTA-DR to provide minimum standards of treatment for AMAYO in its licensing process. AMAYO has yet to seek assistance from us, but should it do so, we will consult with Washington agencies.  
CALLAHAN